

J A P A N · E C O N O M I C · I N S T I T U T E

JEI

R E P O R T

A Two-Part Report: A and B

NO. 44B
November 17, 1989

	Japanese Investment Surge Worries Washington	1
	Japan Debates Higher Retirement Age	4
	Tokyo Ponders East European Reforms	5
	U.S. HDTV Picture Still Fuzzy	7
IN THIS ISSUE:	United States, Japan Agree To Expand Air Service	9
	Washington Disappointed By Slow Pace Of SII Talks	12
	Notes: Sino-Japanese Ties; No Emissions Timetable	13

Japanese Investment Surge Worries Washington

Japan's spending on plant and equipment is high and heading higher. That is the principal finding of two recently released surveys conducted in September, one by the Japanese government and the other by a leading Japanese bank. Both show that a double-digit increase in capital spending is likely during the current fiscal year that ends March 31, 1990, suggesting the investment boom will continue for a third straight year. (For details see JEI Report No. 15A, April 14, 1989.) The increase comes on top of aggregate 1988 plant and equipment spending that, using current exchange rates, was virtually identical to the dollars invested in the much larger U.S. economy.

The Economic Planning Agency reported that the 4,275 firms it surveyed planned to increase spending 17 percent in nominal terms during FY 1989, a figure scarcely resembling the 6 percent year-to-year gain it anticipated in its March survey. The 21.7 percent jump in investment by manufacturing firms exceeded the 14 percent rise among nonmanufacturing concerns. The Industrial Bank of Japan, Ltd. survey, which canvassed 2,891 companies, showed plant and

equipment spending by manufacturing firms up 23.9 percent and a 12.3 percent rise among nonmanufacturing businesses. The largest expected gain -- 52.4 percent -- was in the nonelectric machinery industry (see Table).

September 1989 Survey of Planned Plant and Equipment Spending in Japan

	<u>Number of Firms</u>	<u>FY 1988 Actual (billions of yen)</u>	<u>FY 1989 Percent Change</u>
Manufacturing	1,318	Y5,775.5	23.9%
Steel	94	585.7	28.5
Nonferrous Metals	73	266.6	37.1
Electric Machinery	129	1,322.6	29.6
Shipbuilding	16	145.7	11.2
Motor Vehicles	112	825.0	30.0
Nonelectric Machinery	160	238.0	52.4
Oil Refining	48	338.1	21.7
Chemicals	231	780.6	20.3
Textiles	61	281.6	3.0
Pulp and Paper	50	352.3	9.4
Nonmetallic Mineral Products	93	178.2	23.3
Food Products	97	204.6	15.0
Other	154	256.5	-3.4
Nonmanufacturing	1,531	15,464.2	12.3
Mining	37	65.2	-24.1
Gas	48	312.2	15.7
Construction	109	773.3	20.5
Real Estate	196	2,012.0	26.1
Land Transportation	149	1,012.2	14.6
Marine Transportation	119	153.3	3.7
Department Stores and Supermarkets	72	504.7	17.7
Leasing	110	9,538.3	8.9
Other	691	1,093.0	9.4
Electric Utilities	42	3,708.1	3.4
Total	2,891	24,947.8	13.7

Source: Industrial Bank of Japan

These figures, and others like them, have set off alarms in Washington. American officials fear that the high levels of investment imply an increase in production capacity in Japan. This potential, in turn, makes an export surge to the United States more likely. Higher Japanese exports, in the official American view, is about the last thing either the U.S. economy or the bilateral relationship needs. An unnamed Washington source even gave Nihon Keizai Shimbun, the economic daily, a list of specific industries where excess capacity is a potential problem: cars, steel, electronic equipment and ships.

Richard McCormack, undersecretary of state for economic and agricultural affairs, strongly put this position to his Japanese counterparts during the November 3-4 subcabinet-level talks in Washington. As he later elaborated, "The Japanese export machine is already a very large and powerful factor in the world. . . . And if [it] becomes excessively large, this is going to be increasingly difficult for the world to cope with." As a solution, Mr. McCormack recommended increased Japanese public works spending, such as housing, highways and other infrastructure projects.

Tokyo rejected both the analysis of the problem and the suggested remedy. As they have in the past Japanese officials stressed that most capital spending was not directed primarily toward increasing capacity but, in cases where it was, the new capacity would help to meet rising domestic demand. According to EPA, only 30 percent of the projected added investment is aimed at boosting capacity. (However, in at least one industry, Tokyo apparently saw cause for concern. The Ministry of International Trade and Industry reportedly has pressured Mazda Motor Corp., Nissan Motor Co., Ltd. and Honda Motor Co., Ltd. to scale back planned investments in new plants and plant expansion to head off a feared export surge when the plants come on line.) As to public works spending, Japanese representatives at the subcabinet-level talks argued that higher spending would risk higher rates of inflation in Japan. Finance Minister Ryutaro Hashimoto added that Tokyo had no plans to reverse its policy that calls for no new debt-financing government bonds in FY 1990.

In Tokyo's view increasing public works spending would be tantamount to pouring oil on Japan's smoldering inflation problem. Overall wholesale prices through October were running 3.3 percent ahead of a year earlier, below the rate of increase in the United States but higher than recent rates in Japan. However, if public works spending were implemented in conjunction with a tighter monetary policy, the result might be to crowd out some private investment, thus holding in check overall aggregate demand -- and inflationary pressures. The result of this admittedly tricky maneuver would be continued low inflation, less dependence on private investment to sustain the current expansion and less worry from Washington about higher exports, in part because the yen would strengthen in the process.

Of course, the investment surge could sputter and die of its own accord. Some crosscurrents suggest this possibility: even as firms were reporting to EPA their increased investment plans, they were conveying a sense of diminished optimism over their near-term economic prospects. EPA's measure of domestic business confidence, determined by subtracting positive outlooks from negative ones, dropped to a predicted positive 6 for the first three months of 1990 from a positive 13 in the October-December quarter. If such weakness materializes and if, as Nomura Research Institute, Ltd. has found, most of the current plant and equipment surge is closely related to rising levels of profitability in Japanese firms, firms may scale back investment plans.

An apparently similar ill omen revealed by the IBJ survey should be discounted. According to IBJ, in FY 1990 companies expect to decrease their plant and equipment spending 0.3 percent from FY 1989 levels. However, a year ago a similar IBJ survey anticipated that FY 1989 spending would drop 2.3 percent from FY 1988's figure, although companies now say they plan to hike investment 13.7 percent in the fiscal year ending in March. Repeating a pattern seen in previous years, firms have tended to be initially conservative in their long-term forecasts of investment spending but increasingly upbeat immediately prior

to and during the forecast period. Should FY 1990 spending plans eventually be revised upward comparable to past amounts, firms may find that Washington's rhetoric on the subject heats up as well.

Douglas Ostrom

Japan Debates Higher Retirement Age

Encouraged by the increasing number of companies that have instituted age 60 as the retirement threshold, the Ministry of Labor is making plans to cope with the aging Japanese work force by pushing firms to keep people working until 65. Perhaps more controversial is an accompanying MOL proposal to penalize companies that require retirement before age 60. That age has been the officially recommended retirement target since a 1986 law was enacted to stabilize employment conditions for older workers. Both businesses and trade unions since then have cooperated to fulfill the sense of the law. As a result of their efforts, the proportion of companies requiring retirement at 60 compared with all firms that have an age-based retirement system reached 55 percent in 1988; 12 years earlier the comparable figure was 32.3 percent. The increase comes mainly from the significant improvements made by big businesses -- companies employing 5,000 or more workers. Compliance with an age 60 retirement system in this group catapulted from 18.2 percent in 1976 to 82.4 percent in 1988.

MOL's new proposal basically addresses two concerns. Demographic changes indicate that the percentage of the population aged 55 to 64 compared to the total working-age population (people between 15 and 64) will jump from 15 percent in 1985 to 22.1 percent in 2010. Given fears of a labor shortage and other reasons, MOL figures it is important to arrange work opportunities for older people. Unemployed older workers now have much difficulty finding a job; the effective job opening ratio is only 0.24 for workers over the age of 55 in spite of Japan's current solid economic growth. (In contrast, the ratio for workers age 30 to 34 is 2.11.)

The second rationale for boosting the retirement age is to keep in step with an expected change in the age at which people start receiving social security. MOL is concerned that the rapid increase in the number of workers eligible for social security eventually could bankrupt the system. Currently, different retiree-benefit systems exist in Japan for self-employed people, workers in companies with five or more employees and government employees; the two latter plans require beneficiaries to be only 60 to get pensions. The government decided in February 1984 to integrate the three systems into one universal system in 1995 and to set 65 instead of 60 as the age at which beneficiaries could begin to draw social security. The plan to postpone retirement until 65 will guarantee workers some income until they reach that age when social security payments start, MOL thinks.

Nikkeiren (the Japan Federation of Employers' Associations) opposes the idea of legislating a higher retirement age. The group thinks employers should have the freedom to arrange employment opportunities for older workers instead of being under legal constraints to do so, according to an interim report published October 24 by Nikkeiren's study group on aging. The federation believes that short-term, flexible reemployment measures would be the best means to employ older workers rather than retaining them until they reach a legally set

retirement age. In particular, it has said the MOL initiative is unrealistic since the target retirement age does not take into consideration a company's size; it also criticized the plan to penalize companies that cannot meet the target. Although 82.4 percent of all large companies have adopted a retirement age of 60, only 52.7 percent of medium-sized companies (those with 100 to 299 employees) have adopted the same retirement policy. Therefore, significant repercussions among small and mid-sized companies are expected from a rise in the retirement age and the threatened penalty. Trade unions, however, are jubilant over the MOL idea because they have strongly advocated introducing a penalty along with the extension of the retirement age and have pressured MOL to take legislative action on this.

In the last decade MOL has crafted various policies to increase employment opportunities for older workers, such as offering consulting services and financial subsidies to companies that employ older workers. In FY 1990, when employment opportunities for older workers will be its top priority, MOL will extend new subsidies that provide at most ¥10 million (\$71,400 at ¥140=¥1.00) to any company that creates a new continuous employment system, either by increasing its retirement age, reemploying retired workers or providing ongoing work in some form for older workers. Firms also can get a subsidy from MOL if employees over the age of 60 make up more than 4 percent of their work force. MOL will continue its consulting or advisory services as well as establish an organization to provide employment information for those over age 60. It also plans to map out a long-term strategy to deal with the employment challenges of older workers. Although encouraging the age 65 extension, MOL has set 1994 as the target year for full compliance with an age 60 retirement policy by the business community.

MOL expects the Council on Employment, an official advisory group, to issue a recommendation by yearend on its proposal to increase the retirement age to 65. If its plan goes according to schedule, an amendment to the current law governing employment conditions for older workers will be introduced to the Diet next spring. However, it is uncertain whether the council can reconcile the divergent interests of trade unions and small or medium-sized companies and be able to submit a workable recommendation by the end of this year. There are strong indications that neither side will agree to a compromise in the council. If both positions are treated equally in the advisory council's report, the final decision on when and how to increase the retirement age will be in the hands of the Labor Ministry.

Hideo Takahashi

Tokyo Ponders East European Reforms

To encourage democratic reforms in Eastern Europe Tokyo is planning to announce a new foreign aid package for Poland and Hungary. The Ministry of Foreign Affairs expects to draw the funding from the FY 1989 supplemental budget, but that budget probably will not be put together until early 1990. Although some analysts have speculated that Tokyo will make an aid commitment during the late November meeting of the Group of 24 countries gathering to discuss aid to Eastern Europe, Foreign Ministry officials were uncertain at JEI press time about an official announcement date and the amount of aid that will be given. The G-24 aid plan includes a proposed \$1 billion package for Poland; Japan is expected to make a commitment similar to Washington's \$200 million pledge.

Indicating a thaw in Japan-Eastern Bloc relations as a result of recent events, Prime Minister Toshiki Kaifu has said he hopes to visit Eastern Europe in January. "[Japan] has maintained ties with Eastern European countries as much as possible despite the Iron Curtain," he said, adding "Japan will cooperate [with East European countries] for peace and stability of the world if East European countries make requests [to Japan]."

While many Japanese support the prime minister's plan, not all believe it is a good idea for him to go to Eastern Europe early next year. Within the ruling Liberal Democratic Party former Prime Minister Yasuhiro Nakasone's faction reportedly is against the timing of the visit and believes that Mr. Kaifu instead should focus on problems at home and rally support for the LDP before the upcoming lower house elections. Some Foreign Ministry officials also reportedly do not support a Kaifu visit to Eastern Europe, fearing a poor reception there if Tokyo cannot come up with the amount of aid those countries desire.

Japan has proposed assisting Poland and Hungary with grants, of which approximately half will be for food aid to Poland. The other half is expected to boost worker training and environmental safeguards in the two countries. These grants will be a first for Tokyo. Until now the six East European members of the Warsaw Pact -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania -- have not received any financial assistance from Japan that qualifies as official development assistance because of their political alignment. The money they have received to date from the government falls under the heading of other official flows and consists of Export-Import Bank of Japan export credits, import credits, overseas investment credits and direct lending.

By the end of March 1989 the Ex-Im Bank had made credit commitments totaling ¥128.3 billion (\$916.4 million at ¥140=\$1.00) to Poland, mainly in the form of export credits (see Tables 1 and 2). While new commitments for Poland apparently are not in the works because of that country's shaky financial position, Hungary, where Ex-Im Bank's financial exposure is limited, is in line for more money. At the end of October Hungarian officials announced that the

Table 1: Export-Import Bank of Japan's March 31, 1989 Credit Commitments to Eastern Europe

(in millions of dollars*)

<u>Country</u>	<u>Direct Loans</u>	<u>Other Credits**</u>	<u>Total</u>
Bulgaria	\$219.3	\$263.6	\$482.1
Czechoslovakia	7.1	227.9	235.0
East Germany	860.0	472.9	1,332.1
Hungary	44.3	20.0	64.3
Poland	140.0	777.1	916.4
Romania	10.0	400.0	410.0

*Converted using an exchange rate of ¥140=\$1.00.

**Export credits, import credits and overseas investment credits.

Source: Export-Import Bank of Japan

Table 2: Export-Import Bank of Japan's FY 1988 Credit Commitments to Eastern Europe*

(in millions of dollars**)

<u>Country</u>	<u>Direct Loans</u>	<u>Other Credits***</u>	<u>Total</u>
Bulgaria	\$55.4	\$6.2	\$61.6
Czechoslovakia		2.3	2.3
East Germany	---	---	---
Hungary	---	3.9	3.9
Poland	---	---	---
Romania	---	---	---

*Credit commitments do not include commitments for cofinancing by Japanese commercial banks.

**Converted using FY 1988's average exchange rate of Y128.26=\$1.00.

***Export credits, import credits and overseas investment credits.

Source: Export-Import Bank of Japan

country would receive an Ex-Im Bank credit line of Y5 billion (\$35.7 million) in response to democratic reforms. The money will be used to assist in economic restructuring.

Political analysts speculate that Japan will be cautious about promising grants and/or other forms of official development assistance to East Germany until the political situation there becomes more certain. The same conclusion also seems to apply to the Em-Im Bank, although the bank's hesitancy might reflect the fact that East Germany accounted for 38.7 percent of all its Eastern European credit commitments as of March 1989 and that most of the East German money was in the form of direct loans.

Despite its creditor status in Eastern Europe, Japan does not have strong trade ties there (see JEI Report No. 42B, November 3, 1989). The government's interest in providing economic assistance to the region appears to be a result of its responsibilities as one of the world's largest aid donors. As a world economic power Tokyo also has indicated that it feels compelled to support Eastern European moves toward democracy by providing whatever assistance it can.

Gretchen Green

U.S. HDTV Picture Still Fuzzy

While Japanese companies press their lead in the commercialization of high-definition television, the debate continues over the U.S. government's role in developing a domestic HDTV industry. Many in Congress advocate limited government funding and exemptions to certain antitrust provisions to entice domestic firms to jump into the market. But the administration is torn between its free-market philosophy and its commitment to a strong national defense, which increasingly relies on aspects of HDTV technology.

Discussions between major Japanese and American electronic component makers could add more confusion to the U.S. HDTV debate. The Electronics Industry Association of Japan proposed in June the formation of a joint venture with the U.S. Semiconductor Industry Association to develop and produce chips for HDTV. At a November 8 follow-up meeting EIAJ and SIA agreed to share technical information and develop critical HDTV logic circuits. (It is not clear if the agreement includes advanced memory chip technology, another subject of bilateral friction.) A 20-person team (10 from each country) will be selected by Matsushita Electric Industrial Co., Ltd., American Telephone and Telegraph Co. and LSI Logic Inc. to lead the project.

The joint venture has generated disparate views on its impact. American semiconductor makers see it as a chance to quickly match the technical advantage of Japanese electronics producers who have spent many years developing a working HDTV system. Potential American producers of HDTV equipment, however, worry that the alliance of U.S. chip makers and Japanese equipment producers will make it impossible to insulate the nascent U.S. HDTV market from overwhelming foreign competition. Boosters of efforts to develop a domestic HDTV industry and domestic HDTV standards also see it as a serious blow to their hopes. SIA, however, insists that the agreement has nothing to do with standards. On the contrary, the association argues, the U.S. industry will gain valuable knowledge that can be used to develop an entirely different HDTV standard as well as a wide range of related areas. While the agreement does not include any Japanese commitment to buy U.S. chips, American producers expect it to lead eventually to greater exports to Japan, further easing bilateral tensions.

Another area of concern centers on the technical standards for HDTV, which will have a major impact on manufacturers, broadcasters and users. (For an in-depth discussion, see JEI Report No. 2A, January 13, 1989.) After initially acquiescing to Japan's system, the United States withdrew its support for a single worldwide standard. At the recently concluded International Radio Consultative Committee meeting participants from 36 nations agreed on 23 global standards relating to HDTV. Agreement on four critical items, however, still must be ironed out. The likely outcome of the talks is to set general standards that will allow Japan, the United States and Western Europe to adopt their own systems. Some U.S. observers even see Sony Corp.'s purchase of Columbia Pictures Entertainment Inc. as a threat to U.S. efforts to develop a domestic HDTV industry since Sony could issue Columbia's huge film library in only the Japanese HDTV format, setting a de facto standard in the United States.

Jon Choy

United States, Japan Agree To Expand Air Service

After 13 years of protracted discussions U.S. and Japanese negotiators concluded an agreement in Tokyo November 5 that will expand by 30 percent air passenger and cargo services between the two countries. "This agreement represents the most dramatic expansion of air services to Japan since the original bilateral aviation agreement was signed in 1952," said Secretary of Transportation Samuel Skinner. Concluded as a memorandum of understanding between the United States and Japan, the new accord builds on the 1985 interim aviation agreement as part of an ongoing, comprehensive effort by both governments to completely revamp the basic 1952 treaty (see JEI Report No. 13A, April 1, 1988).

Both American and Japanese carriers have been clamoring for expanded rights to serve the increasingly lucrative transpacific market. The November 5 agreement authorizes many new routes for combined passenger and cargo services between the two countries. Increased all-cargo flights also will be permitted. In addition, special provisions are aimed at benefiting air traffic to Alaska, Guam and Saipan. The terms of the accord address the following issues:

- Capacity restrictions - U.S. airlines will be able to operate new nonstop combination services to Tokyo from three American cities; they also will be able to provide these services to three non-Tokyo/Osaka cities from three U.S. cities. (The 1985 accord already had allowed three additional Pacific routes for nonstop combination service by existing or new carriers of both countries; route options at that time were confined to Tokyo-Honolulu, Nagoya-Honolulu, Tokyo-Los Angeles, Tokyo-Portland or two new U.S. destinations from Tokyo.) American carriers currently providing passenger and/or combination services in the U.S.-Japan aviation market are: United Airlines, Northwest Airlines, Continental Air Lines, Delta Air Lines and American Airlines. Gateways for Japan-bound U.S. carriers are: Chicago, Dallas/Fort Worth, Honolulu, Los Angeles, New York, Portland, San Francisco and Seattle.

Comparable expansion open to Japanese carriers serving the transpacific market -- Japan Airlines and All Nippon Airways -- will enable nonstop combination services from Tokyo to three U.S. cities and from non-Tokyo/Osaka cities to three American cities. Japanese airlines currently offer nonstop flights to: Anchorage, Atlanta, Chicago, Honolulu, Los Angeles, New York, San Francisco, Seattle and Washington, D.C. In addition, Japanese airlines will be permitted to offer one-stop service to as many as three other U.S. cities. (American carriers have no restrictions on connections within their home market.)

Japan Airlines, in particular, will see its service in the Tokyo-Seattle-Chicago market expand from five to seven flights per week. The new accord also may enable Japan Air System (formerly Toa Domestic Airlines) to inaugurate regularly scheduled service on the Japan-U.S. route.

- Cargo service - Washington will be able to designate an additional all-cargo carrier to serve the U.S.-Japan market. Federal Express Corp. and Northwest Airlines currently are the only American air freight operations serving Japan. Under the new agreement either Federal Express or Northwest also will be authorized to serve an additional point in Japan to be selected from Nagoya, Fukuoka or Sapporo.

JAL and Nippon Cargo Airlines, the two Japanese carriers flying freighters to the United States, will be authorized to operate up to eight all-cargo flights per week to Chicago, a U.S. destination long coveted by JAL. Japanese authorities probably will divide this allotment between the two airlines. The November 5 MOU also will enable NCA to inaugurate new cargo service to Los Angeles. Under the 1985 agreement NCA, Japan's first international all-cargo airline, began offering six round-trip, all-cargo flights a week between Tokyo and New York via San Francisco.

The November 5 agreement also addressed a longstanding complaint by Flying Tiger Line, Inc., which this past summer was acquired by Federal Express. Flying Tiger in August 1988 charged that Japan was unfairly limiting its right to ship cargo "beyond" Japan to Europe via Anchorage, Alaska. Japanese authorities had insisted that the volume of freight traffic between Tokyo and Europe could not exceed the volume on the Tokyo-Anchorage route.

To avoid imposition of U.S. sanctions, Tokyo subsequently agreed to authorize unrestricted all-cargo service on the Tokyo-Alaska-Europe route for a 179-day trial period providing it would be allowed to check freight records. However, Japanese authorities subsequently imposed a rule that half the contents of polar flights to Europe via Alaska had to be destined for the U.S. market. When this "50-50" rule was applied to each flight, it meant that in some cases packages had to be left behind if the load was heavy on a particular flight with packages to one or the other destination.

On this point, Tokyo decided to bend. Although Japanese authorities still will monitor the volume of "beyond" freight to Europe, the 50-50 rule will apply on the basis of a year's record rather than on each flight.

- Charter restrictions - The limit of 300 U.S. charter flights to Japan per year will be increased to 450 flights annually, effective January 1, 1990. This provision appears to represent a U.S. concession in that Washington repeatedly has called for the elimination of this quota system for charter flights, contending since 1978 that the market should make this determination.

- Guam/Saipan service - Washington will be able to designate an additional carrier (for a total of two) to fly Guam/Saipan to Nagoya, Fukuoka and Naha (Okinawa). In addition, two new flights will be permitted between Guam and Saipan to connect with Japanese cities other than those already served. Continental's subsidiary, Air Micronesia, currently is the only U.S. carrier serving these routes.

- Alaska service - Any U.S. or Japanese airline providing combination service will be permitted to serve Alaska en route. Moreover, one additional U.S. carrier and a Japanese carrier will be authorized to provide daily combination service between Alaska and any point in Japan other than Tokyo or Osaka.

Jeffrey Shane, assistant secretary of transportation for policy and international affairs, said given the ever-expanding demand for transpacific service (see Table), both sides would have preferred even broader opportunities. Unfortunately, restrictions at Narita International Airport in Tokyo and at Osaka International Airport limited the options. "[The November 5 agreement] reflects a balance of aspirations," the assistant secretary stated. "This is certainly less than what we hoped we could get. And the Japanese feel the same way. But that's good because both sides remain hungry."

The American airlines that will provide the expanded service and the new gateway cities will be selected by the Department of Transportation after a formal review of applications from interested parties. The ink on the accord had barely dried November 6 when United and American filed with DOT for authority to begin nonstop service on the Chicago-Tokyo route, which currently is served by Northwest and JAL. American also is considering applying for flights out of Los Angeles and reportedly has ordered eight new McDonnell Douglas Corp. jumbo jets in anticipation of expanded transpacific service.

Moreover, several American cities that hope to realize a boost in revenues as a result of expanded air traffic with Japan -- including Houston, Phoenix, Denver, New Orleans, Orlando and San Jose -- reportedly have been lobbying the airlines to choose them as new gateways to Japan. But, despite the widespread enthusiasm of American carriers and potential for new gateways to tap

International Scheduled Passenger Traffic To and From Japan

(in millions)

Region	Countries Covered	Base Year Traffic		Forecast Traffic Volumes		Projected Annual Growth Rate 1989-93
		1988	1989	1989	1993	
Central America	1	17.6	2.7%	18.1	16.9	-0.9%
Europe	11	1,903.1	14.6	2,181.1	2,982.1	9.4
Indian Subcontinent	3	142.1	8.1	153.7	181.6	5.0
Lower South America	6	76.3	18.2	90.2	152.7	14.9
Middle East	6	69.0	8.1	74.6	97.3	7.1
North America	2	6,868.9	14.5	7,862.5	10,260.3	8.4
Northeast Asia	4	9,590.5	13.4	10,873.1	15,278.0	9.8
Southeast Asia	5	2,873.3	17.2	3,366.8	5,107.8	12.2
Southwest Asia	4	2,076.3	18.3	2,455.3	3,693.2	12.2
Total	37	23,617.3	14.6	27,075.3	37,769.9	9.8

Source: International Air Transport Association

into this market, it appears that patience may be in order. According to Mr. Shane, his department will not decide how to allocate the new routes until October 1990.

Barbara Wanner

Washington Disappointed By Slow Pace Of SII Talks

Are the Structural Impediments Initiative talks doomed? That view, offered by a cross section of analysts after Japan and the United States agreed last summer to tackle the underlying macroeconomic and microeconomic causes of the chronic \$50 billion-plus bilateral trade imbalance, has become more prevalent in Washington following a second round of discussions in early November. But writing SII off on the basis of two sessions would be premature. What the Japanese delegation said or did not say at the November 6-7 meetings obviously matters. Far more important, though, is what is happening behind-the-scenes in Tokyo, and developments there provide some grounds for optimism about the outcome of the SII talks.

American trade policymakers knew their latest strategy for narrowing the huge U.S.-Japan trade gap was extremely risky because of the short time Tokyo had to demonstrate progress on problems that realistically can be resolved only over the long run. The Bush administration also recognized that the precarious position of the ruling Liberal Democratic Party made SII an even longer shot. Nevertheless, senior officials were confident that Tokyo understood what was riding on the talks and that it would give the White House enough ammunition to